COMMISSIONER'S COMMENTS

Gary K. Mielock
Acting Commissioner

In the increasingly fast-paced world of financial services another year of change has drawn to a close.

In June, the Bureau bid a warm farewell to Commissioner Patrick M. McQueen, who had led the agency since May, 1993. When Governor Engler appointed me Acting Commissioner in June, I inherited an agency well-prepared to carry on its business.

And what a variety of business that has been. In January, then-Commissioner McQueen placed MCA Financial Corporation and its affiliates into conservatorship. On February 10, conservator B.N. Bahadur initiated voluntary bankruptcy proceedings. Ruling on a challenge by the U.S. Trustee, in April U.S. Bankruptcy Judge Steven Rhodes upheld the FIB action, agreeing with the Commissioner that, even though only two of the twelve companies were registered with the FIB, the ''companies acted in concert, as one enterprise, and are therefore inextricably linked.'' As I write, the complex bankruptcy proceeding continues. (For more information, see the conservator's Web page at *http://www.aeg1.com/bbk/mca.htm.)*

Last year also saw the close of a three-year legal battle with the Comptroller of the Currency. In February, 1996, Commissioner McQueen filed suit in Federal District Court seeking a ruling that then Comptroller of the Currency Eugene Ludwig's decisions in a series of applications filed by Society Bank, Michigan, violated state and federal law and, in effect, usurped the state's right to determine whether it would opt in or out of interstate branching. Readers of prior reports will recall that the district court upheld the Comptroller's actions. In May, the United States Court of Appeals for the Sixth Circuit reversed the district court's decision and directed the lower court to grant summary judgment in favor of the Commissioner. In referring to the Comptroller's approvals, the court concluded: ''The complex applications and master plan involved propose instantaneous steps and maneuvers that would equal the actions of a Fred Astaire or a Gene Kelley.'' The bank offices in question have been reestablished in accordance with the provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act.

I am pleased to report that the National Association of State Credit Union Supervisors (NASCUS), following thorough review of the Bureau's operations and credit union regulatory program, reaccredited the Financial Institutions Bureau. Credit for this achievement belongs to Bureau staff, whether on the front lines as examiners or working their magic behind the scenes in administration, research, and other support activities. They work hard to provide prompt and high quality service. Their continued professional growth and development is an important part of our strategic planning. In addition to a strong commitment to training, we have implemented a more refined and objective system of employee performance measurement.

Two FIB executives have been elected to key positions in our national regulator associations. A. Ann Gaultney, director of the Bureau's Examination Division, was elected president of the National Association of Consumer Credit Administrators (NACCA). She has been an active member of the board of NACCA, which represents the nation's state regulators of nondepository lending institutions, since 1991. In 1999, she and her staff developed and hosted a highly praised NACCA training seminar for state examiners of nondepository financial institutions from across the country. Roger W. Little, director of the Bureau's Credit Union Division, was elected to the board of directors (NASCUS). He is the fourth Michiganian since 1974 to serve on the NASCUS board, and currently serves on the Corporate Credit Union Task Force, the Member Business Loan Task Force, and the Performance Standards Committee.

Examination staff in the bank and credit union programs did double duty for much of the year, performing their regular supervisory duties as well as assisting federal regulators in assessing regulated institutions' preparedness to handle the Y2K computer date change. Michigan institutions are to be commended for their efforts to produce a virtually problem-free transition to the new year.

Seven new state chartered banks opened in Michigan during 1999, and we continue to receive new bank applications. While consolidation still is occurring in the banking industry, the continued interest in new charters indicates that there remains an important role for community banks. This year's applications were notable for the number seeking to serve outstate areas—Petoskey, Traverse City, and Sault Ste. Marie. Details of applications received and approved and institution openings can be found on the Bureau Web page, *www.cis.state.mi.us/fib/.*

Last year saw substantial growth, as well, in the nondepository financial services sector, where the total licensee and registrant population in our seven licensing programs topped 5,000 for the first time. The first mortgage program, alone, grew over 28 percent over the course of the year.

One of the agency's challenges is effective regulation of these businesses with our relatively small staff. In 1999, in an effort to improve compliance with licensing statutes, the Bureau undertook enforcement action against over 200 first and second mortgage companies that failed to make annual activity reports or file annual financial statements. We expect improved compliance with these requirements in the future.

The continued general health and growth of the financial industry also enabled the Bureau to reduce regulatory fees for banks, credit unions, and mortgage companies in 1999. This was the first year for mortgage company fee reductions; bank and credit union fees also were cut in 1998.

The pace of change did not slow during the past year. We saw the Michigan Legislature and the Governor approve our recommended recodification of Michigan's 30-year-old banking code and the U.S. Congress finally act on amending the Glass-Steagall Act. The state law change was prompted by the cumulative changes in financial service markets, products, structure and technology that have occurred since 1969. We wanted to assure that Michigan's banks had the powers and flexibility they need to stay competitive—not only with their traditional competitors, but with the new entrants to the market. And we wanted to assure that the FIB has the tools and flexibility it needs to regulate the changing banking business effectively as we enter the next century. (See ‘‘Significant Developments'' in this report and our Web page for more information on the Banking Code of 1999.)

After two decades of debate, Congress' action to create a mechanism for the affiliation of banking, insurance, and securities business seems almost anti-climactic. The Citicorp/Travelers Group merger in 1998 set the stage and a new imperative for action to accommodate cross-industry affiliations. The resulting legislation does not go as far as some wished in the direction of breaking down the barriers between banking and commercial activities, but it strikes a balance on CRA reform, ratifies functional regulation of activities of financial holding companies, and creates a mechanism for others who wish to follow in the Citigroup path. We do not anticipate that the new state banking code will pose any barrier to institutions acting in conformance with the Gramm-Leach-Bliley Financial Modernization Act.

The Michigan Legislature also approved amendments that conform the Consumer Financial Services Act to recent structural and regulatory changes in the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan

Act. Operating fees now are based on volume of activity conducted, providing some relief for smaller firms. And there's no longer a requirement for branches of licensed firms to have separate licenses. The Bureau gained authority to issue cease and desist orders, improving our capacity to react to violations of the act.

The extent of change in participants in the financial services business is readily apparent to those who were in the business thirty years ago. Mortgage companies were relatively new to the scene. Banks were discouraged from competing head-to-head with each other by laws restricting products, locations and pricing. In 1969, insurance companies weren't yet making car loans, and securities brokers hadn't yet discovered how wildly popular mutual funds and cash management accounts would be.

ATMs were newfangled tools of uncertain utility when Michigan undertook to regulate electronic funds transfers in 1978, but today even the corner gas station may own the machine on its premises. The technology available to financial services providers has helped to spur both product development and product delivery and has made even back-room operations more efficient. Today's financial services customer has the opportunity to access deposit accounts via ATM, point-of-sale, telephone, PC, and the internet. Lenders increasingly are automating the loan application and approval process, with most types of consumer credit now available by internet or automated loan machines. ''Screen scrapers'' are providing subscribers with consolidated statements on their financial accounts with different institutions. Consumers can pay bills electronically via third parties or through their depository institutions. Stored value cards are being tested around the world, as are electronic wallets that will facilitate remote purchasing—and even gadgets that will electronically beam stored value from hand-held PCs to a receiving merchant or similarly equipped individual.

In the changing financial services field today, competition is the name of the game, and the challenge for regulators is making sure the playing field is level and the players follow the rules. The influx of new players has resulted in stronger product innovation and more competitive pricing. Consumers are enjoying unprecedented choice in financial service providers and products, and I expect this trend to continue.

This is the 111th and final report of the Financial Institutions Bureau as an autonomous agency. In his State of the State Address in January, 2000, Governor Engler announced his intention to consolidate the Financial Institutions Bureau, the Michigan Insurance Bureau, and the securities division of the Corporation, Securities and Land Development Bureau. Effective April 3, 2000, the functions of these agencies will be merged in a new Office of Financial and Insurance Services created under Executive Order 2000-4. This new structure will position Michigan financial services regulators to respond more cohesively to consolidation in the financial services arena as organizations take advantage of new authority under the Gramm-Leach-Bliley Financial Modernization Act. Our name will change, but our goal of providing quality service to financial institutions and the public will not. Be assured that you will continue to find us as professional and responsive as always. I look forward to continuing to work with you as the century closes and we enter the new millennium.

Gary K. Mielock
Acting Commissioner

Commissioners

Theodore C. Sherwood	1889–1896
Daniel B. Ainger	1896–1897
Josiah E. Just	1897–1898
George L. Maltz	1898–1903
George W. Moore	1903–1907
Henry M. Zimmerman	1907–1911
Edward H. Doyle	1911–1915
Frank W. Merrick	1915–1921
Hugh A. McPherson	1921–1927
Rudolph E. Reichert	1927–1936
Howard C. Lawrence	1936–1937
Charles T. Fisher, Jr.	1937–1938
Alvan Macauley, Jr.	1938–1939
Frederick B. Elliott, Jr.	1939–1941
Maurice C. Eveland	1941–1942
E. William Nelson	1943–1948
Maurice C. Eveland	1949–1956
Alonzo L. Wilson	1957–1960
Jerome J. Zielinski	1960–1961
Charles D. Slay	1961–1968
Robert P. Briggs	1968–1973
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Eugene W. Kuthy	1983–1990
Russell S. Kropschot (Acting)	1991–1993
Patrick M. McQueen	1993–1999
Gary K. Mielock (Acting)	1999 to present